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**Nature and Significance of Islamic Economics**

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**Abstract.** Islamic economics has of late landed in confusion and neglect and much concern is being voiced on this state of affairs. The divergence of views on various aspects of the subject tends to grow, cohesive efforts are missing. It is in this context that the present paper takes a look at the nature and significance of Islamic economics and examines the issues of its definition, nature and scope, the questions of methods and methodology, system approach, the problems that seems to hinder its growth, the challenges Islamic economics faces today and how the same can be faced. Since the differences between the Islamic and mainstream economic disciplines stem from the divergent worldviews that condition them, the discussion opens on the topic as background material. This paper is a part of draft Chapter of a book under preparation on Islamic economics and finance. Comments and suggestions are welcome but the paper or its parts cannot be put to any commercial or unfair use.

**Keywords:** Islamic economics, Worldview, Methodology, Economic systems, Problems challenges.

**JEL.** B10, B30, G20, K40, K20.

**1. Introduction**

One distinctive feature of Islam is its candid rejection of asceticism. Islam exhorts mankind to enjoy all permissible things in life. To that end, Allah has stocked the Earth and Heavens with His inexhaustible resources and made them yield to human beings' will and effort for their use. Thus, a substantive part of Islamic jurisprudence, known as *fiqh muamlat*, deals with issues relating to the treatment of natural resources, land especially, production, consumption, trade, commerce, income, wealth, property, taxation, financing etc.

The classical jurists discussed the *muamlat* in minute details but were not always unanimous in their interpretations of the divine law. Interpretive differences were not a problem; they gave space and flexibility to the system while keeping its ethical hard core undiluted. The term Islamic economics never occurred to the classical scholars though the evolution of the subject in thought and methodology has shown strong proclivity to revert back to their writings<sup>i</sup>. The frequent 'pull back' has indeed been a constant source of confusion and controversy on the definition, nature and scope of Islamic economics<sup>ii</sup>.

The evolution of the economic ideas enshrined in *fiqh muamlat* continued to grow as the Islamic renaissance movements gathered momentum for freedom from the colonial rule in the Muslim lands. For, these economic ideas provided a handy and non-provoking method to attacking the Western ideologies both of capitalism

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and socialism as opposed to Islamic ethos and exploitative of the masses. An important source of such preparatory writings was the Indian sub-continent.

The proliferation of works on economic ideas of Islam across countries started attracting much attention during the latter half of the twentieth century when most of the Muslim nations had won their political independence from the colonial rule. This set the stage to the launching of Islamic Economics in a formal way in mid-seventies.

The first International Conference on Islamic Economics held at Jeddah in 1976 endorsed a program to erect the infrastructure to launch the subject as a formal academic discipline. Three international Islamic universities were started one each at Islamabad, Kuala Lumpur and Kampala, new centers, institutions and departments for teaching and research on the subject were added to the existing universities and two academic journals were launched to promote the literature and disseminate information. Islamic economics had arrived.

The departing point of Islamic economics from the mainstream is its ethical foundation. The divergence gets content and direction from the worldview underpinning each of the disciplines.

### 2. World view and its impact

The notion of the worldview is western in origin and contextual in nature. We cannot explain it without specifying whose worldview we are talking about, at what point in time and for what purpose? The term usually is taken to refer to an individual's perception of the world, albeit the role of external stimuli in shaping that perception is recognized<sup>iii</sup>. However, for a social science like economics we have to see how a community looks at the purpose of life, especially the relationship with other human-beings, with the universe at large and with the Creator of both. It is this collective social perception that distinguishes on economic discipline from others. Individuals may still have their own variants but their overall behavior would tend to conform to what has socially been agreed<sup>iv</sup>.

With the spread of education – including religious - and changing social environs individuals in a community tend to develop, rather unconsciously, a shared mental image of God's creation and its purpose, that is of man's place and role in the universe and of their relationship with the social phenomena which they influence and which in turn influences them. Such a collective image constitutes the societal worldview. It is so to say an architectonic whole from which various human activities in general follow.

Islam provides man with a worldview which is God ordained; it is shaped and conditioned by moral and ethical code for individual and social conduct in various spheres of life including economic that the Qur'an and prophetic traditions prescribe. This code has interpretive flexibility but cannot be altered or replaced by human will. In contrast, the West has developed what it calls a *scientific* worldview based on rationalism and changeable by a social process of approval. Both these worldview versions have distinct and largely divergent approaches to the material and spiritual aspects of human existence. Both create their own visions of truth and reality.

The Islamic worldview creates in believers a perception of their own significance in the divine scheme of creation<sup>v</sup>. The Qur'an tells us that man - a mix of earth and the divine (spirit) - is the best of all creation, even superior to angels. As man volunteered to work as God's vicegerent and co-worker on Earth, Allah handed over the planet with all its treasures to him as and in *Trust*. He provided human-beings the Shari'ah, a code of conduct to run His Trust. The code spells out his rights and obligations in various spheres of managing the Trust. However, the divine wisdom granted man *freedom* to follow or not to follow the instructions but

with the provision that he will be rewarded for compliance and punished for violations of the rules as per explanations in the code. In that sense, Shari'ah can be seen as a system of rewards and punishments for regulating man's conduct in running the Trust he undertook to manage (Qur'an 2:38-39).

Thus, from its very inception, Islam is a man-adoring religion. It empowers him to enjoy all good things in this life and teaches him, if he cares, to do so in a way that the pleasures in the hereafter also remain open to him. Thus, the Islamic worldview inseparably links the life in this world (*al-dunniya*) with the life in the hereafter (*al-akhira*), the latter being of eternal significance. Everything in Islam is ultimately focused on *Al-akhira* aspect of human existence without in anyway implying the neglect of *Al-dunya* with prescribed norms. The stance centers around the Islamic concepts of *tawhid*, *viceregency* and *al-adl* (unity, trusteeship and justice).

A worldview is evolutive and is locked in a reciprocal relationship with knowledge. The formation of the Islamic worldview itself evolved to maturity over the twenty three years of revelation and its subsequent interpretative variants over the centuries. On course, the process shaped, modified, even changed at times, the content and direction of the expanding disciplines – science, jurisprudence, *tafsir* (interpretation) *kalam* (philosophy), literature, and history, economics entering the list only recently. But to what extent would the modern expansion of knowledge be allowed to impact the Islamic worldview is difficult to say<sup>vi</sup>. Nonetheless, there seems to be a sort of consensus about a hard core consisting of explicit non-controversial prescriptions that cannot be allowed to dilute. The hard core helps one to provide answer to a two pronged question of faith: concerning the humans and the Creator including the nature of relationship between the two.

The main constituents of the hard core are explanations concerning the attributes of God, the nature of revelation, the purpose of man's creation and his place in the universe, the faith imperatives, the notion of justice and the meaning of reality and truth (Qur'an 31:30). These elements and terms and the implications they unfold have a great bearing on the Islamic ideas about change, development and progress<sup>vii</sup>. They all have been and remain open for interpretation and elaboration lending flexibility to the Islamic world view and its economic ramifications.

Other religions, like Islam, too project their own worldviews to guide their followers' conduct in this world in various spheres of life, including economic so as to achieve solace in the hereafter<sup>viii</sup>. For instance, the mainstream economics could not cut free of its Christian moorings until the early decades of the twentieth century. The alienation process started with the Enlightenment movement completing the separation when in 1929 the Vienna Circle<sup>ix</sup> published a position paper titled as "The Scientific Worldview" (Redman 1991, 9).

What triggered this development was a new set of ideas, the rising businessmen with significant political clout needed to help remove the lingering feudal institutions and restrictive controls of the 300 years run of the mercantilist era. Ancient truths such as the immorality of interest, the virtues of charity and the contentment with one's inherited station in life were considered barriers to progress and had to go. These ideas pushed social sciences, especially economics, closer to the thought processes and methods of natural sciences. Newton's science showed 'nature' as active and effective an agent as the earlier will of God: "If the divine will had created the mechanism that worked harmoniously and automatically without further interference, then *laissez faire* was the highest wisdom. Natural law would guide best the economic system and the actions of people as well. However, it would be incorrect to attribute the origin of the change to Vienna Circle. It was rather the crystallization in their position of ideas that were taking shape over the

centuries; for instance the emphasis on naturalism in Smith's *Wealth of Nations* or the later advocacy for *laissez faire* in France.

Adam Smith (1776) further darkened the clouds Ibn Khaldun, a fifteenth century Muslim scholar had already cast on the nefarious mercantilist manipulations<sup>x</sup>. Smith, a moral philosopher though, articulated the pursuit of self-interest as the *natural law* for economic activity; he argued that the pursuit harmonized individual and social interests conducive to overall progress and prosperity. He saw great spontaneity in the evolution of economic institutions like accumulation of capital, division of labour and the usage of money combining in the production of wealth. The legitimacy of the *laissez faire* was derived from the natural order illustration of solar system in Newton. It was sought to be reinforced by the key ideas of Darwin focusing on the natural selection based on individual differences leading in competition to the survival of the fittest. This led social scientists to the natural order from the biological end – the evolution of species.

Ideas illustrated from both ends – physics and biology – took the environment as *given* not to be manipulated or changed deliberately. The plea of maintaining the status quo suited those who had no grievance against the existing order; they saw benefit in its continuation. Interestingly, in economics a further but different influence from natural sciences side presumably came from the Einstein's *theory of relativity* – what is true for an observer in one system may not be true for an observer in another system. The development of such terms as 'frame of reference', 'value system' and 'point of view' is illustrative of such influence. (Hasan, 1998)

The three revolutions in natural sciences alluded to above, induced major changes in social studies in thought, method and direction, perhaps most in economics. Many saw in them a 'unity of method' applicable in equal measure to all science – physical or social. Islam endorses this unity but with a difference – The law for societal regulation is given by the Shari'ah; it cannot be derived or based solely on observations of the natural phenomena. Such observations are encouraged as supplementing Shari'ah norms and instructions as they too are in conformity with nature – the nature of man.

The difference in the unity of the scientific method and the natural law in the two worldviews – Islamic and secular – initiates major departures of Islamic economics from the mainstream. The basic ones relate to the 'is and ought' controversy, reason revelation relationship, doctrinal stance and reality. These are briefly discussed as follows

### 2.1. *Is and ought controversy*

The secular worldview sought to expel all transcendental ideas from the purview of social sciences. Such ideas were attacked in economics with a skeptical scalpel as ethics and morality attempted to deduce illogically prescriptions from facts – an 'ought' from 'is'. Economics as a science is concerned only with what is. What ought to be, it could admit only when supported by objective logic. This view of mainstream economics never paled into insignificance once it occupied the centre of stage<sup>xi</sup>. The secular scientific worldview thus thought of the universe as a self-acting machine following the natural laws even when Allah was its original creator! The contention restricted man's vision to his existence in this world without any thought of the hereafter. It awakened the body, slumbered the soul. The turmoil ridden world thus lives in chaos and anxiety.

The so-called scientific worldview essentially projects rationalistic materialism, reflecting and caring only for the mundane desires of man. Thus, Alfred Marshall could talk of economics as catering only for "the material requisites of well-being in the ordinary business of life (*Principles*, 1898, 1). In the absence of hereafter and accountability to any superior being, man feels existing because he exists; he

sees no difference in an act of suicide and a feat of sacrifice as he faces no system of reward and punishment.

In Islam, the matter-spirit interlocks in man's personality do not allow him to follow either asceticism or mammon worship. But once the Enlightenment ejected scientific worldview in the West separated the two, capitalism never allowed them to rejoin. Economics overpowered human thought and action to the exclusion of ethical consideration; man could throw atom bombs on populous metropolises of Japan to hasten the end of an already ending war just to see the unparalleled devastations with triumphant joy and satisfaction?

Material progress unrestrained by ethics and morality has been indeed tremendous but at an incalculable cost to mankind in terms of environmental damage and human suffering. The fragmentation of the unitary religious worldview in the name of science made the capital owners the dominant social class perpetuating abject poverty and vulgar inequalities in opportunities, freedom and prosperity. To them belongs power wealth and now even clientele religion<sup>xii</sup>. One task of Islamic economics is to seek restoration of the unity of its worldview which the alien influences have dismembered and fractured in the Muslim mind as well. Required contextually is a closer look at the relationship between reason and revelation.

### 2.2. Reason-revelation relationship

One may look at this relationship in two different ways. First, reasoning operates as a tool of analysis *within* discussions on revelation. Second, reason confronts and questions revelation from *outside* the confines of religion. The first way of looking at the relationship is Islamic, the second secular. The meanings and argument is not the same in the two cases.

The monistic view of Islam<sup>xiii</sup> includes both reason and sapience – intuitive wisdom – in the ambit of rationality; secularism leaves sapience out ([Al-Attas 1993](#), 18, 35; [Hasan, 1995](#), 59). For distinction, we shall replace reason with its Islamic import as *intellect* that is reason plus sapience, leaving the term reason as it is in secular usage.

Intellect as defined above is a faculty that transcends the realm of understanding and provides preclusive principles for human guidance in worldly affairs. It makes comprehensible to man the metaphysics of the visible and invisible worlds and of their mutual linkage, thus enabling him to develop a holistic and integrated vision of life; indeed, the intellectual foundations to the Islamic conception of God as enshrined in the scripture. For, unlike secular rationalism, Islam does not see Nature as a material physical object for human exploitation and use; it accords it a further and deeper significance. The Qur'an upholds Nature – the entire universe – as an open book which intellect alone, not rationality, can help read, understand and interpret. Intellect makes one feel and grasp that Nature is bestowed with a cosmic relevance. It must be revered as it contains symbols bearing testimony to the existence of God and his supremacy in the universe.

Intellect invokes commitment to faith and ennobles ideas like creativity, beauty, love, sympathy, sacrifice and so on. Intellect can alone – not rationality – appreciate why Ibrahim unhesitatingly plunged into the fire Nimrod got lit; what made Edward VIII kick off the mighty British throne to marry the lady he loved; or why did Nietzsche the great German philosopher sacrificed his life protecting a helpless injured horse from the merciless beatings of her owner ([Hasan, 1998](#), 12). The Qur'an (30:39) declares: "That which you give as interest to increase peoples' wealth, increases not with God but that which you give as charity seeking goodwill of God multiplies manifold". Mainstream economic rationality cannot see how apparent loss here could be a gain in the hereafter; intellect can as it would take into account the non-pecuniary benefits like spiritual solace and mental tranquility.



Indeed, intellect can create ideologies and systems, even revolutions as history testifies. Intellect widens the span of knowledge and its sources. However, the confusion in Islamic economics may arise, as it sometimes does, if sight is lost of the distinction between intellect and reason in discussing the role of the latter in explaining revelation.<sup>xiv</sup>

### 2.3. *Doctrine versus reality*

Economic activity operates within some ideological framework; economics has an underlying doctrine that shapes institutions and prescribes goals, helps design policies and gives content and direction to the ground reality. Thus, economies have an operable doctrine-reality circuitry. In mainstream economic systems – capitalism and socialism – the doctrines resulted from the formalization of the observable ground realities. For example, Adam Smith observed the accumulation of capital, technological breakthroughs, division of labour and monetary institutions maturing in the country – he could foresee industrial revolution characterizing UK the leading colonial power of the world. His *wealth of Nations* raised capitalism – its institutions and doctrine – from ground realities. He is rightly called the (capitalistic) system builder. Likewise, Karl Marx saw the dark side of capitalism – exploitation of the working class, spread of mass poverty, deprivation and denial; he provided the initial design of what matured as socialism. Over time, both capitalism and socialism assumed various shades and variations. The commonality between them is that in both cases the glide is *from reality to doctrine*.

What about Islam? Here we have neither a Smith nor a Marx. Colonization of most Muslim countries did not allow them to grow out of the early mercantilist era. Thus, Ibn Kuldun's *Introduction* (1406) could hardly go beyond discussing the causes that account for the rise and fall of nations along an inverted parabola with wealth on the X-axis – he could not draw the contours of an Islamic economic system because he saw little operating on ground. During the long colonial subjugation, Muslims only moved away from Islamic imperatives in many ways except retention of faith and rituals. By the dawn of independence, their economies had already gone far on the road the colonizers had charted for them. This continues even today as geographical independence has yet to liberate intellect and soul.

The restraints of history apart, there is another difficulty in Islam. Here, one is confronted with a doctrine already in existence. The economic system has to address the stated objectives (*maqasid-al-Shariah*), it must, for example, prioritize the fulfillment of basic needs, enforce the norms of justice, ensure business fair play, tighten market regulations and work for distributional equity. The glide has to be *from doctrine to reality*. The task is to make the existing realities reconcile with the doctrine; to get rid of the impurities that invaded it overtime and continue to invade even today. This indeed is an uphill task under the current chaos and turmoil that plagues the Muslim world today. Still, a beginning, however, small, has to be made somewhere. Expedient would be a step-by-step approach to reach the destination in course of time.

With this background we proceed with a discussion on various topics on Islamic economics.

## 3. Definition of Islamic economics

It is very difficult to define economics, more so in an Islamic dispensation, because it has to maintain its linkage with ground realities. Economic activity is immersed in social dynamism. Thus, with multifarious social change the scope of economics must keeps on changing, rather expanding, like the boundaries of a fast

growing metropolis. Still, for proper understanding of the subject, it becomes necessary to define it as precisely as possible.

A generally acceptable consensual definition of Islamic economics has not yet emerged even after more than six decades of its formal/informal existence (Iqbal, & Muljawan 2007, p.4). Social dynamism apart, several other reasons have impeded the progress in the matter. First, the task of formalizing Islamic economics was initially taken up by the religious scholars. They worked hard with devotion, earnestness and humility. They successfully raised the edifice of Islamic economics, expanded educational institutions and courses in the area, brought out journals and attracted professionals from the mainstream to enrich and give the subject a modern look and acceptability. Great contribution it all was and earned all the praise it deserved.

New entrant to the discipline were sought and encouraged albeit there was a discernible preference for those linked to the Islamic revivalist movements across countries in matters of recognition and reward. A school of thought of sorts seemed to have developed in Jeddah (Hasan, 2005, 12-13) having common position on the approach, content and thrust of Islamic economic ideas. With occasional departures, concepts like scarcity of resources, pursuit of self-interest, and maximizing behavior on the part of economic agents and what followed in their wake was mostly thought extrinsic to Islamic economics; nay they were acclaimed to be the defining departures from the secular mainstream economics. This created a lot of difficulty, confusion and inconsistency in shaping the subject – its definition, nature and scope<sup>xv</sup>. There is no commonly agreed definition of Islamic economics; there is rather a welter of them characterized with ambiguity, confusion and illogic.

The historical ‘pull back’ on the one hand and resistance to it on the other have divided the Islamic economists into two broad strains – regressive and forward looking. The regressive insist on a puritan all-or-nothing approach to develop Islamic economics. They reject the mainstream economics lock stock and barrel; to them, it contains nothing worth Islamic approval or absorption. To us, they are ivory tower thinkers and offer little that is operable in the current times, even in Muslim countries. In contrast, there are those who argue that Islam never divided knowledge into Islamic and non-Islamic. It takes the available stock of knowledge, advocates for using Islamic filters to accept that passes through and reject what does not even after modification in the light of Shari’ah norms. It is this sort of ‘step by step approach’ that is gaining ground in the more recent writings in Islamic economics. Then, there are those who are seen lurching between these two more definitive positions; not a few have preferred to revise their earlier postulates (see Khan, 2013). There is now increasing realization that mainstream economics contains much in terms of argumentation, analytical tool and modes of presentation for adaptation with advantage. Contextually, the denial of resource scarcity has almost vanished, pursuit of self-interest conditioned by the Islamic ethical norms is accommodated and maximizing behavior is not rejected out of hand.

Despite this softening of attitude on several fronts, the majority of scholars continues to have strong proclivity to denounce any semblance of a proposal of defining Islamic economics that has the slightest affinity with the mainstream as touching the untouchable. This must be resisted as no one, save the naïve, can deny the ‘*unlimited want-scarcity*’ realism of human existence being part of the Divine scheme. The definition we present below is doubtless in the post-Marshall Robinson vein and yet its ramifications, we shall see, pull the two disciplines – Islamic and conventional - poles apart.

“Islamic economics is the subject that studies human behavior in relation to multiplicity of wants and scarcity of resources with alternative uses so as to



maximize *falah* that is the well-being both in the present world and in the hereafter” (Hasan, 2015, 4).

Islam nowhere denies unlimited character of human wants; a tradition rather says that if one is given a mountain of gold, he would ask for another. Allah in His mercy to mankind has created resources for his use in inexhaustible measure but what, and how much, from the store would be *available* to humans at a time and place, depends on the state of their knowledge and effort. Unlimited wants relative to resource availability is the fountainhead of social progress and prosperity, concern and anxiety as well (Hasan, 2014).

The incorporation in the definition of the notion of ‘*Falah*’ to which the call to prayers from the minarets invites the believers to come ten times a day is epitome of what Islamic requires of mankind – using the material means to achieve solace in the hereafter. It is expressive of the prayer that believers mostly address to God after each prayer:

“Lord! give unto us in this world that which is best and in the hereafter that which is best, and save us from the torment of fire” The Qur’an (Al-Baqarah 201).

In addition, the definition closes the gap between the mainstream and Islamic disciplines, yet keeping the two distinct because of their world view differences. Some of the important concepts are in the revision process. To repeat, denials of resource scarcity relative to multiplicity of wants has almost vanished, pursuit of self-interest within ethical bonds is acceptable, above all maximizing behavior on the part of economic agents is entertained with conditions.

### 4. Nature and scope

The nature of economics signified the sort of subject it was - a positive science, or a normative science? The distinction symbolized the culture of mainstream economics since Lionel Robbins (1932). The distinction became common in economics textbooks<sup>xvi</sup>. Scope on the other hand, refers to the subject matter of economics that is the sort of areas it covers. Because the basic economic problems of people everywhere are quite similar, consumption, production, exchange of goods and services as well as distribution of wealth remain the basic concerns of economics, including Islamic, both at the micro and macro levels. Financing and public economics problems including environmental issues cannot be ignored. Price theory would lie at the heart of all these discussions. The point of departure from the mainstream would be the concept of efficiency in various fields. Efficiency would indeed be a hard nut to break. For example, price discrimination in monopoly is considered efficient in mainstream economics but Islamic ethics may consider it unjust. Similar could be the case of wage cuts to pull the economy out of depression. Cases can be multiplied.

Following Adam Smith, mainstream economics was thought concerned with wealth alone and the factors that promote its growth in a society until the closing years of twentieth century. But the social environ was still swayed with ethical and moral considerations. The focus on wealth made economics an unpopular dismal science. Marshall (1898) shifted the emphasis to achieving the social well-being, wealth considered only a means to that end. Economics became both a positive and normative science with an art aspect also added. The position changed radically when in 1932 Lionel Robbins, a member of the Vienna Circle, posited a scarcity based view of economics making it neutral towards the ends. Positivism became its nature, empiricism its method. Its scope widened. Wherever scarcity could give rise to a cost benefit trade-off was seen an economic problem. Thus, economic analysis is applied today not only in popular spheres of life but even in crime, education, the family, health, law, politics, religion, social institutions, war, and

science. The expanding domain of economics in the social science has been described as ‘economic imperialism’. The description shows the nature and scope of modern economics. This may all extends to Islamic economics but with its *halal/haram* restrictions.

Islamic economics too is a scientific body of knowledge, in that it admits the use of reason and analogy to establish ‘cause and effect’ relationships. The Qur’an does not shun rationality or positivism. It is not averse to the use of empirics either. The scripture contains many positivist statements about the natural phenomena and human character. However, based as it is on religion, Islamic economics has of necessity a dominant normative aspect; it cannot move beyond its moral confines. Since Islam prescribes a way of living in this world, it avoids *idle theorizing*. Principles of Islamic economics are essentially the principles of economic policy. In sum, the subject holds both positive and normative content. It also prescribes action programs to achieve Islamic ends as alluded to earlier<sup>xvii</sup>.

As one point of distinction, it is at times contended that mainstream economics is value neutral while Islamic economics is value based. This is not true. For, mainstream economics too is not free of value judgments. Values are implicit in its basic assumptions – freedom of enterprise, private ownership of property, market arbitration, competition, non-intervention and so on fall in the category. These assumptive values exist because of social approval and can also be changed or modified through social agreement. In Islamic economics values are God ordained; human beings can impart to them limited interpretive flexibility; they cannot abolish or replace them. Thus, both economic disciplines have values; the difference lies in their source.

### 5. Methods and methodology

Since economics essentially deals with the human behavior, many economists rightly argue that it cannot be as precise a study as the natural sciences like physics, chemistry etc. The latter have the facility of experimentation in designed laboratories where the behavior of relevant variables can be easily controlled to observe their mutual interactions. Social sciences, like economics, do not enjoy such facility because they deal with living being where stimuli can seldom be subjected to external control. Still, over a period of time economic science has gained the maturity to develop its *methods* that can be used for efficient analysis of economic phenomena. The role of these methods is to search for possible cause and effect relationships between the variables under consideration that could be generalized for explanatory purposes as also for making predictions with sufficient accuracy.

There are two broad methods used in the economics for the purpose: a) The deductive method and b) The inductive method. The positive-normative controversy in economics has cast its shadow on the issue of method suitability as well driving a wedge between deduction and induction. The ‘battle of methods’ has been quite famous and familiar in economic literature until it was realized that “is and ought” can hardly exist without each other (Hands, 2012)<sup>xviii</sup>. It was argued, for example, that in Pareto optimality postulate— making someone better off without making anyone worse off – the fundamental postulate of modern welfare economics, the ‘positive’ incorporates a ‘normative’; norms of efficiency are purposeless without considerations of “equity” in the distribution of income/and resources; the two must go together. These developments led to the conclusion that deduction and induction were both needed for scientific analysis as the right and left foot were both needed for walking.

In any case, one cannot imagine the existence of Islamic economics without a dominant normative content; raising concerns about wealth concentration, rising deprivations, wage inadequacy, rent-seeking, land reforms, uncontrolled freedoms, environmental degradation and so on. The mainstream reconciliation on methods helps the cause of Islamic economics. We must have a brief look as to how each of these methods work.

### 5.1. Deduction

In this method certain hypotheses or postulates regarding human behaviour are taken to be true, for example men are generally guided by self-interest, and then with the help of logical reasoning it is sought to be established how they are likely to behave in a particular case. To illustrate, pursuit of self-interest will tend to make consumers to offer as low a price for a commodity as would be acceptable to the seller. On the other hand the latter would attempt to extract as high a price for the commodity as the buyer would be willing to pay. The price would be determined where these two contending forces would be in balance. It comes about that both the laws of demand and supply can be deduced from the pursuit of self-interest postulate. The important point is that in deduction we move from a general truth – real or assumed – to particular conclusions. David Ricardo extensively used this method to establish many economic theories in the areas of distribution and foreign trade; theories that even this day have explanatory and predictive values.

### 5.2. Induction

Deductive method of course has merits and has proved helpful in many cases. It economizes on time and expense. However, it seems to suffer from certain weaknesses. The main one is that theories it establishes often tend to fail to keep pace with social dynamism over time and space; ground realities increasingly defy the assumption underpinning them.

Therefore, economists belonging to the German historical school and others have favoured the inductive or empirical method. Induction involves going from particular to general. Here the focus is on facts to discover uniformities in conduct generate reasoning. For example, cost data collected from the accounts of a large number of firms over time and space over short period defined by fixity of plant capacity reveals a common pattern expressed in the form of laws of returns in the short run to describe cost out-output relationships. Thus an attempt is made to arrive at generalizations from the known facts the ground realities. Here also social dynamism, variations in data definition and recording within and between economic entities, choice of sample designs and techniques of analysis detract from the reliability of generalizations derived. Empirical studies are increasingly found confirmatory rather than refutative; they are especially weak on perdution front.

The more sensible position on methods seems to be the use of both deduction and induction at different stages in the same piece of inquiry as the scientific method. Islam is rather supportive of this position; deduction and induction have both played their part in the evolution of *fiqh muamlat*, especially in Moorish Spain.

Methodology of economics broadly consists of the set of criteria, rules, and procedures which the philosophers of the subject have evolved over the years to examine and evaluate how well the subject is performing in achieving its goals, over time and space; contextually, it examines nature, scope, and its methods of investigation. For working efficiently, methodology is generally seen as standing *outside* economics, the subject it is purported to evaluate. On the contrary, in Islam *usul-al-fiqh* serves as the methodology to generate and supervise *fiqh-al-muamlat*. Both are parts of Islamic economics and operate to achieve not any man-made

goals but objectives of the Divine law. The role of intellect is to impart interpretive flexibility within the given framework, not beyond (Hasan, 1998, 17 – 24)<sup>xix</sup>.

Mainstream writings on methodology proliferated after the 1950s but the wave subsided before the close of the century. The subject increasingly ran into so much abstraction and controversy that its study was shifted from the departments of economics to that of philosophy in many universities across the globe. It is interesting that while attention to methodological issues tended to wane in mainstream economics literature, it tends to gain ascendancy in the field of Islamic economics. Several prominent scholars including Al-Attas (1995), Massod Alam Choudhory (2007), Zaman (2013), Mirakhor (2007), and Haneef (2011) dub most of the current literature coming out on the subject violative of Islamic law and intent from methodological norms as they interpret them. As such they reject most of it as mimicry of the mainstream neo-classical economics. One may grant them the positions they take but the difficulty is that they do not go beyond rejection, prescribing little operable under the prevailing circumstances of the Muslim world. A cruel example is that a high powered committee was set up in 2010 on the IDB initiative under the chairmanship of a remounted Pakistani scholar to write a textbook on Islamic economics for use in teaching Islamic economics in the higher education institutions. Six years have gone by, the book has yet to see the light of the day. Individual contributions in the area also failed to win wider approval.

## 6. Economic systems

Islam prescribes a way of living in this world for salvation in the hereafter. The Divine law demands ground demonstration; theorizing has little value in the Shari'ah. Thus, Islamic economics started with writings on the Islamic economic system.<sup>xx</sup>

Economic activity operates in a broad organizational framework called economic system. The framework consists of economic entities like households, business firms, public institutions, markets and so on. They are constituted and operate according to a set of rules of conduct governed by doctrine ingrained in the social worldview. The main components of a system making that of Islam different from the two others - capitalism and socialism - are as under.

### 6.1. Axiomatic differences

Axioms refer to what a system believes as self-evident truths; truths implicit in the worldview a society upholds. To illustrate capitalism, in principle, believes in freedom of enterprise, public non-intervention in economic matters, market supremacy and arbitration with competition as a regulatory force ensuring public good. Also, in this setting, it sees no clash between individual and social interest in general.

On the contrary, socialism, shorn of its shades and details is opposed to freedom of enterprise that, it believes, must of necessity end up in a capital-labor clash resulting in the exploitation suppression and exploitation of the workers. It believes in public ownership of productive resources and planning by direction to ensure distributive justice and resultant social equality and eventual peace.

Islam seeks to take the middle path between capitalism and socialism. It accommodates the axioms of capitalism, but in a reformed and socially conducive form as per Shari'ah norms and directions. In its thrust and focus, the system is pro-poor without being anti-rich; it seeks to convert mundane ambitions of men here into means for salvation in the hereafter. Tolerance, patience, humanism and justice are its guiding principles.

### 6.2. Property rights

## Journal of Economic and Social Thought

The Islamic system, like capitalism, allows the private ownership of property but with an important departure. It enjoins on property owners to hold it not only for self benefit but in trust for others as well (Qur'an 2:29). Unlike capitalism, Islam assigns rights to others in one's wealth – rights of the poor and the deprived that have to be honored. The scripture exhorts believers to spend in the way of Allah for social good no less than a prescribed minimum.

### 6.3. *Operational mechanism*

Allowing private ownership of property in Islam implies freedom of enterprise, pursuit of self-interest and seeking of maximization of gains, of course subject to shari'ah constraints<sup>xxi</sup>. Islam approves competitive markets and allows price mechanism to operate albeit sans interest, indeterminacy and speculation that mar fair-play. The system disapproves the socialist control and regimentation of markets.

### 6.4. *Societal priorities*

Capitalism, as its name implies, works to promoting and safeguarding the interests of capital owners. In that, it gives more weight to individual liberty and freedom of action compared to societal aspirations and well-being. Socialism seeks to reverse these priorities. Islam allows the individual *guided* liberty to develop and utilize his full potential to benefit himself and help others. Individual exists in a society not outside – a wave has presence in the ocean not beyond is its philosophy. Thus in Islam societal interest and well-being gets precedence over that of the individual in case there is a clash between the two. Thus, scarce economic resources have to be utilized to first produce those goods that meet the basic human needs of food, clothing, shelter, education and health care.

## 7. Problems

Islamic economics is at present in a muddled state and lacks direction. Part of the problem can be traced back to its originating in the writings of the men of religion who found them socially marginalized during the long spells of colonial rule over the Muslim lands. They did much laudable work that helped preserve the Islamic identity of the community and also provided them with a living. Compared to positive contributions to society, they tended to keep the masses away from modern education to save them from imbibing the cultural values of the colonial bosses. By the time, foreign rule ended and independence dawned over the Muslim lands after the Second World War, the community had already been divided horizontally between those equipped with Western education and those remaining stuck in narrow religious confines.

Independence transferred power to the minority with modern education leaving the religious leadership high and dry. The latter started Islamic movements across the Muslim world to capture political power. Islamic economics no longer remained a pious scholarly pursuit; it increasingly became part of the political arsenal the relatively poor and at the lower rungs of the intellectual ladder. Islamic movements could seldom get political power or retain it even where they could because of the Western mechanizations including armed intervention.

Nevertheless, Islamic movements did succeed in extracting major concessions and massive financial support from the various state organs for Islamic economics and finance to emerge and attain fast the status of an academic discipline not only in Muslim lands but with recognition across the non-Muslim world as well.

This indeed is a great and laudable achievement of the Islamic movements' leaders across the world. However, on this road of progress, the discipline has also courted some serious afflictions. With the passage of time and with wider recognition of the subject, the movements' dominance of Islamic economics and



finance education got slackening; they could not keep out, had to rather welcome, the non-movement professionals to enter and run the discipline. This has created some difficulties.

1. The old guards have revived, rather sharpened, their attacks on the Western Capitalism to establish the superiority of the Islamic alternative to replace it. The point here is not how valid is the criticism of the mainstream economics or the claims for the Islamic. The point is how valid it is to compare the ideals of a *non-existent* Islamic economic system anywhere in the Muslim world with the weaknesses of capitalism operating actual economies? To us, it is an unfair chalk and cheese comparison proving nothing; getting us nowhere.

2. On the other end, the new enthusiasts, the professionals educated in the West with their foreign degrees enjoying a premium in the emerging economies, especially Muslim, have claims on Islamic economics. Conditioned in the Western mode of thinking, they want Islamic economics, especially finance, to develop along the empirical route fashionable in the West, knowing full well that ethical norms and intentions cannot be quantified and the data they can, and do use, seldom have the needed Islamic roots or content.

3. In between, has emerged a new group of the so-called Islamic economists: the Muslims retiring from the international financial institutions – the IMF and the World Bank. All of them are not worth the premium Islamic educational institutions put on them as '*experts*'. Their appointment to international institutions is not essentially on merit or by competition; it is essentially political – governments of member countries appoint them as their representatives as per quota. They largely make poor academics.

The educational, cultural and attitudinal differences among the academia working in the higher learning institutions in the Muslim world coming from very heterogeneous backgrounds have detracted from developing a cohesive, consistent multifarious and directional body of literature in Islamic economics.

## 8. Challenges and future

Islamic economics faces some serious challenges for its survival as a distinct academic discipline. These are as follows.

In the forward march of any educational system – Islamic or secular – dread of change is the greatest stumbling block.<sup>xxii</sup> It may remain rooted in the past, but the past can never be the present or future of a living system. Conservatism is the millstone of Islamic economics, not contributing much in practical terms to the progress and prosperity of Muslims across the globe. There is no merit in finding faults with others unless one can show what one preaches being superior on the ground. Demonstration wins' conviction, not claims.

Rising use of econometric modeling in Islamic economics and finance is harming the cause of purposive research. It lacks theoretical bases and data compatibility with Islamic norms. The results are invariably confirmative – reinventing the wheel – model specific and in most cases non-applicative. It is one of the most perilous imitation of the Western academic culture in Islamic economics and finance. It tends to kill creative thinking in young scholars and detracts attention from indigenous issues (Hasan, 2007). There is no useful idea in economics that cannot be expressed in the simple common usage language.

The serious most challenge Islamic economics and finance faces, is the lack of well-structured and graded courses and the matching textbooks. Western course structures and textbooks in social sciences' education do not address the relevant issues nor provide cases and illustrations appropriate with Islamic disciplines. Their use imitation needs restraint. As students in Islamic institutions of higher



## Journal of Economic and Social Thought

learning cannot as they should not be kept away from the learning of the mainstream secular economics, and Islam does not shun gaining that knowledge, it is advisable that writing textbooks on Islamic economics must be on priority and must adopt an integrative approach, not exclusive<sup>xxiii</sup>.

Not bulk of the of the journals brought out by the Islamic educational institutions for publication of researches proliferating in Islamic economics and finance are refereed and are well-recognized. A glaring omission is INCEIF acclaimed as the thought leader in the area of Islamic finance while its sister organization ISRA regularly brings out a bi-annual Shari'ah oriented journal on Islamic finance.

Instead of starting their own journals or promoting the existing ones, there is a distinct proclivity to encourage faculty and students seek publication in Western journals. There indeed is a rat race for publishing in Western journals to win recognition, employment and professional growth. New Journals are mushrooming there to fill the rising demand and their publication has become a fast expanding profitable business. These journals charge hefty publication fees. Authors in developing countries, especially Muslim, tend to go in for group-writing to share the publication charge. A scrutiny of some such articles for quality claimed is called for on a regular basis. I find some that I went through below par.

Islamic economics is a social science; it is not theology. Unless Islamic economists shun a retrogressive approach to their subject and appreciate the interpretive flexibility of the Shari'ah accommodative of change the social dynamism initiates, the discipline will carry decreasing economic content marring its future. Islamic finance may survive till there is oil in the Muslim world or other energy sources do not sufficiently come up to replace it. But the future of Islamic economics, indeed, looks bleak at present.

## Notes

- <sup>i</sup> A good account of their contribution is provided in occasional literature surveys, but a systematic historical analysis probably first appeared in a paper of Islahi (2010). Shinsuke (2012) in his well-documented research provides a 'Critical Overview of the History of Islamic Economics'. The 'Current State of Knowledge and Development of the Discipline' is available in Hussein (2013).
- <sup>ii</sup> This apparently is common to the evolution and progress of various branches of knowledge. For instance, even the mainstream economics has undergone and is undergoing this process since its acclaimed origin in Adam Smith (1976). Even its name was not firmly fixed until the close of the nineteenth century. Alfred Marshall's *Principles* (1898) opens with the words: "Economics or political economy ...".
- <sup>iii</sup> For an elaboration of the point see Shari'ati (1982, 22-25).
- <sup>iv</sup> Ibid. pp. 25-32. The author provides examples to clinch the point.
- <sup>v</sup> Ibid p.18, n.2. The author quotes the poet philosopher Dr. Muhammad Iqbal's couplets in his explanation.
- <sup>vi</sup> For instance, one finds that Al Atas is reluctant to admit modification or change compared to Shari'ati who is more accommodative to fresh interpretations.
- <sup>vii</sup> See Sadr (1983, 7-9); Al Attas (1995, 5) and Qutb (1978, 57).
- <sup>viii</sup> See for example Guide & Rist (1953, 516-570) on the economic role and impact of Christianity through history. See also Redman (1991, 176, n. 11).
- <sup>ix</sup> The Vienna Circle was a group of philosophers who gathered around Moritz Schlick, after his coming in Vienna in 1922. They organized a philosophical association, named Verein Ernst Mach (Ernst Mach Association). The group sought to re-conceptualize empiricism by means of their interpretation of the then recent advances in the physical and formal sciences. Their radically anti-metaphysical stance was supported by an empiricist criterion of meaning and a broadly logicist conception of mathematics. They denied that any principle or claim was synthetic *a priori*. Moreover, they sought to account for the presuppositions of scientific theories by regimenting such theories within a logical framework so that the important role played by conventions, either in the form of definitions or of other analytical framework principles, became evident. (Stanford Encyclopedia of Philosophy) First published Wed Jun 28, 2006; substantive revision Wed Feb 17, 2016
- <sup>x</sup> Ibn Khuldun (1967) is recognized as the founder of modern sociology but his contribution to economic thought is also well noted. (See Boulakia (1971)).
- <sup>xi</sup> See for instance these two definitions: Science is science and ethics is ethics; it takes both to make a whole man; but only confusion, misunderstanding and discord can come from not keeping them separate and distinct, from trying to impose the absolutes of ethics on the relatives of science. (Friedman, 1955, 409)  
Morality, it could be argued, represents the way that people would like the world to work – whereas economics represents how it actually does work.
- <sup>xii</sup> To be sure, Islam is one thing, what Muslims are doing is another. In this work the focus is on Islam, not on the deeds of Muslims.
- <sup>xiii</sup> The definition of monistic is a teaching with only one essential substance or principle as is the notion of *Tauhid* in Islam from which everything else follows.
- <sup>xiv</sup> For a fuller discussion on the point see (Hasan, 1998, the Section on reason-revelation relationship).
- <sup>xv</sup> The IDB Prize award lecture of Chapra (1996) discusses the definition of Islamic Economics in pages 33-35. In his footnote 32 he has reproduced without comment the definitions of the subject in the writings of S.M. Hasanuz Zaman, M. A. Mannan, Khurshid Ahmad, M.N. Siddiqi, and M. Akram Khan, To Chapra himself, Islamic economics could be defined as "that branch of knowledge which helps realize human well-being through an allocation and distribution of scarce resources that is in conformity with Islamic teachings without unduly curbing individual freedom or creating continued macroeconomic and ecological imbalances." Aydin (2013) adds Hasan's definition of Islamic economics to Chapra's list and reviews them all in terms of what he spells out as a new paradigm in pp. 27-29.
- <sup>xvi</sup> In thinking about economic questions, we must distinguish questions of fact from questions of fairness ... Positive economics deals with questions such as: Why do doctors earn more than janitors? Does free trade raise or lower the wage of most Americans ... Normative Economics involves ethical precepts and norms of fairness; should poor people be required to work if they are to get government assistance? Samuelson & Nordhaus (2001, 7-8).
- <sup>xvii</sup> In a way the positive/normative tangle had already been resolved for economics when J. Keynes (1917, 34-35) observed: "The problem whether political economy is to be regarded as a positive science, or as a normative science, or as an art, or as some combination of these, is to a certain extent a question merely of nomenclature and classification. It is, nevertheless, important to distinguish economic enquiries according as they belong to the three departments respectively; and it is also important to make clear their mutual relations."
- <sup>xviii</sup> A related development has been the advent of the "rational choice theory".
- <sup>xix</sup> An authentic and readable reference for a detailed comparative study of methodological issues and their role in shaping the two distinct academic disciplines is Addas (2008): *Methodology of economics – Secular versus Islamic*, Research Management Centre, International Islamic University (IIUM) Kuala Lumpur. The book is downloadable from the internet.
- <sup>xx</sup> The first systematic, comprehensive and extensively documented treatise on the subject was *The Economic System of Islam (broad outlines)* in Urdu language. Written by Maulana Hif-zur-Rahman

Seoharvi, the Secretary General of Jamaat-e-Ulma-e-Hind, the book was first published by Dar-ul-Mussanifeen, Urdu Bazar, Delhi-6 in 1936 and went into six commercial editions, the last appearing in 1946. Other writers, including Maudoodi, appeared on the scene much later.

Sheikh Rahman was doubtless the pioneer of Islamic economics in the Indian sub-continent. Regrettably, his *System* never won the recognition it deserved but for a political divide: Jamaat-e-Ulma-e-Hind of the Sheikh was with the Congress in freedom movement of India pitched against the partition of the country, while Islamic economics after partition became the prime concern of Jamaat-e-Islami that now stands divided into three segments – Pakistan, India and Bangladesh – bound with common academic thought and agenda. Obviously, the magna opus of Rahman- a truly encyclopedic work - could not fit into the scheme of aspiration of the Jamaat. Copies of the *System* in Urdu with an introduction in English written by the present author are available in the main libraries of the International Islamic University (IIUM) and INCEIF the Global University of Islamic Finance, the two leading seats of Islamic instruction in Kuala Lumpur, Malaysia.

<sup>xxi</sup> There has been much confusion and debate on the maximizing behavior of economic agents in Islamic economics and the issue remains in a state of flux. Khan (2013, 42) commenting on the illogic of resistance to the proposition wrote in his well-received publication What is wrong with Islamic economics, Edward Elgar, seems to have clinched the issue when he wrote, “A respectable exception is Hasan (2005, 32) who argues that maximization behavior has to be seen in the context of “what” and “how” before a final verdict can be given”.

<sup>xxii</sup> Iqbal the great philosopher and renowned Urdu poet wrote: Aein-e-nau se derna terse- kohan pe urna + Manzil ye-he katin hai qaumon ki zindagi main Yeh caravan-e-husti hai taizgam aisa + Qaumein kochal ga-e hain jiski rwa ravi main. Translation: The dread of change that keeps men stuck to the beaten route is the real hurdle in the life of nations, Many such communities have been crushed by the fast paced world.

<sup>xxiii</sup> On this see Hasan (1998; 2005 and 2015 preface). See also Khan (2013, 7-8).

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